



CONSUMER POWER AND CONSERVATION FINANCING AUTHORITY

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MEMORANDUM

DATE: May 7, 2002

TO: California Power Authority Board of Directors

FROM: Staff

SUBJECT: *Action Item 2D: CPA's filing with CPUC Procurement OIR*

Action Requested

Consideration of public comments on CPA's intended filing before the CPUC in conjunction with the CPUC's procurement policies to establish policies and cost recovery mechanisms for Generation procurement and renewable resource development.

OUTLINE OF TESTIMONY

There are four areas in this proceeding that are potentially critical and central to the mission of the Power Authority. In part one of the submittal we will present the specific important areas and recommend specific outcomes desired from the PUC. In part two of the submittal we will explain how these specific outcomes tie into the overall energy landscape and how the recommended outcomes will help the big picture. In this document, I will list the specific critical areas, and put out some recommendations for the public to comment on and for the board to discuss.

Critical Area #1 – Renewable Resources

Renewable resources must play an ever-increasing role in the portfolio of supply used to provide California with electric energy. This increase can be crafted to assure cleaner and more diverse supply far into the future. The Commission must require the IOUs purchase supply from renewable resources in increasing quantities to support the state policy goals. Initial recommendations include:

- Mandatory purchase quantities by Utilities
- 20% renewable target by 2010
- CPA does all or nearly all procurement to alleviate stranded asset concerns for over market costs

- Mandatory cost recovery by PUC without IOU exposure. – CPA needs to be prepared to argue for before the fact approval so we don't have cost exposure
- Group led by CEC to determine what counts as renewable and how to count it.
- Changes at PUC to allow for sufficient transmission – some wind sites have never developed because SCE won't build transmission

Critical Area #2 – Demand Response

This broad category includes programs designed to reduce peak demand as well as increase the efficiency of our electric usage profile. The effect of significant price responsive demand on peak prices cannot be underestimated. This valuable tool can provide insurance against involuntary interruptions and stabilize power prices at peak times. Increased efficiency will dramatically alter our need for new energy sources. The Commission must allow much broader demand participation, and specifically support the design of new programs for both demand reduction and energy efficiency that will increase the use of these valuable tools. Initial recommendations include:

- Required purchase by Utilities
- 5% of load by 2006 (2500mw) and 10% by 2010 (5000mw)
- Support for programs that go across utility boundaries. This will help us with aggregators, i.e. all the Office Depots in the state.
- Agreement to include direct access and Muni customers as resources for energy (negawatts) This looks just like a power purchase
- Up-front cost recovery approval so we aren't left holding the bag.
- Working group on how to measure interruptible loads, how to count them, how to prevent double dipping (a PUC favorite bogeyman)
- Interruptible programs that can be counted by ISO for Ancillary services.

Critical Area #3 – Reserve Margin

The state must determine the appropriate level of reserves that are needed to assure uninterrupted supply of electricity for our economy and stable market prices and performance. The Authority will convene a process with participation by all interested agencies and market participants to determine what this target should be. Initial recommendations include:

- Statement that Authority is responsible for determining level of reserves needed
- Working group to determine appropriate reserves – CPA lead
- Agreement that IOUs must provide reserves of this amount
- Location specific resources that the CPA would own i.e. San Francisco, that deal with specific reliability issues.
- CPA should own some specific peaking resources as a safety valve to assure that peak prices are not out of control.

Critical Area #4 – Distributed Generation

The increased deployment of clean distributed generation resources will enhance reliable electric supply in several ways. First it increases system security by shrinking power plant size and spreading out the location. Second, it reduces the need for transmission as power generation is spread throughout the grid. Third it reduces exposure to outages both on an individual customer basis and more generally because the outage of small generating sources is much less likely to affect the overall grid stability. Some initial recommendations include:

- Identify conditions needed to allow DG be beneficial to the distribution system.
- Create a framework where the IOUs are incented to facilitate the deployment of DG
- Target deployment of 200mw of DG by 2003 and increase this amount approximately 100mw per year through 2010
- Reduce or eliminate financial and technical barriers to DG deployment such as interconnection, exit fees, net metering and other issues.